



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

DOCKET NO: H-04	BOARD MEETING: December 10, 2012	PROJECT NO: 12-083	PROJECT COST: Original: \$13,597,500
FACILITY NAME: Springfield Nursing and Rehabilitation Center		CITY: Springfield	Current:
TYPE OF PROJECT: Substantive			HSA: III

PROJECT DESCRIPTION: The applicants (OJCC, LLC, OJCC Realty, LLC, MS Springfield, L.P., MPG Healthcare, L.P.) are proposing the establishment of a 75 bed long term care facility in Springfield, Illinois. **The anticipated project completion date is June 30, 2013.**

State Board Staff Notes:

- This project was originally approved in April of 2009 as Permit #08-086 for the establishment of a 75 bed long term care facility at a cost of \$12,950,000.
- In October 2011 permit #08-086 was altered to reduce the Gross Square Footage from 54,375 to 45,271 a decrease of 9,104 GSF or 17%.
- In September 2012 permit #08-086 was deemed invalid for failure to comply with the post permit requirements and the permit being transferred without State Board approval.
- In October 2012 a Final Order was issued whereby the parties agreed to file a second application for permit (Permit #12-083) to complete the project with a valid permit.
- As can be seen in the Table below the cost of the project has increased 5% and the size of the project has decreased approximately 17%.

Differences between Permit #08-086 and Project #12-083				
	<u>Permit #08-086</u>	<u>Project #12-083</u>	<u>Differences</u>	<u>% Difference</u>
Beds Needed	246	165	-81	
Cost of Project	\$12,950,000	\$13,597,500	\$647,500	5%
Cash	\$1,950,000	\$2,597,500	\$647,500	33%
Mortgage	\$11,000,000	\$11,000,000	\$0	0%
Clinical Costs	\$8,989,384	\$8,633,143	(\$356,241)	-4%
Non-clinical Costs	\$3,960,616	\$4,316,857	\$356,241	9%

Differences between Permit #08-086 and Project #12-083				
	<u>Permit</u> <u>#08-086</u>	<u>Project</u> <u>#12-083</u>	<u>Differences</u>	% Difference
Size of Project	54,375	45,271	(9,104)	-17%
Cost per GSF (new)	\$183.54	\$155.27	(\$28)	-15%
Cost per GSF (modernization)	\$0.00	\$0.00	\$0	0%

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicants (OJCC, LLC, OJCC Realty, LLC, MS Springfield, L.P., MPG Healthcare, L.P.) are proposing the establishment of a 75 bed long term care facility in Springfield, Illinois at a cost of \$13,597,500.
- **The anticipated project completion date is June 30, 2013.**

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- To establish a health care facility as defined by the ACT (20 ILCS 3960)

PURPOSE OF THE PROJECT:

- The proposed project is seeking approval for an already approved permit in which the identified beds to be provided and those to be served has not wavered.

NEED FOR THE PROJECT:

- **To establish a long term care facility the applicant must;**
- Document that there is calculated bed need;
- Document that the facility will provide service to the planning area residents;
- Document that there is demand for the facility;
- Document that the proposed facility will improve service access;
- Document that the proposed facility will not create an unnecessary duplication/maldistribution;
- Document that the proposed facility will not impact other area providers;
- Document that the bed capacity will not exceed 250 long term care beds;
- Document that there is sufficient staffing availability;
- Document that the community is in support of the facility;
- Document that the facility is appropriately sized, and;
- Provide assurance that the facility will achieve and maintain target occupancy within two years after project completion.
- There is a calculated bed need in the planning area of 165 long term care beds and it does appear that the proposed long term care service will be provided to residents of the planning area. However there are existing facilities in the planning area that are not at target occupancy therefore it does not appear access to service will be improved and an unnecessary duplication of service may result with the establishment of this facility. Letters from the community have been provided and the applicants have indicated that sufficient staff will be available to the staff the facility.
- **The construction of the facility is complete and the facility is waiting IDPH licensing survey.**

Facility Name	City	Beds	Distance	Time	Utilization
Lewis Memorial Christian Village	Springfield	155	3.59	9.2	91.70%

Facility Name	City	Beds	Distance	Time	Utilization
Illinois Presbyterian Home	Springfield	15	3.78	10.35	29.60%
Regency Nursing Care Residence	Springfield	95	4.33	10.35	84.30%
Oak Terrace Care Center	Springfield	78	4.21	10.35	58.80%
Capitol Care Center	Springfield	251	6.98	16.1	70.80%
Heritage Manor - Springfield	Springfield	178	7.56	17.25	92.80%
St. Joseph's Home For Aged	Springfield	65	6.97	17.25	94.20%
St. John's Hospital	Springfield	78	8	18.4	76.70%
Villa Health Care East	Sherman	99	12.3	21.85	95.00%
Springfield Terrace	Springfield	65	8.9	21.85	88.30%
Auburn Nursing & Rehab Center	Auburn	70	14.8	25.3	86.70%

BACKGROUND/COMPLIANCE ISSUES

- The applicants have no adverse background or compliance issues to report.

PUBLIC HEARING/COMMENT

- No public hearing was requested and no letters of support or opposition were received by the State Board Staff.

FINANCIAL AND ECONOMIC FEASIBILITY:

- The project is ongoing and financing has been secured. The applicants have secured a 24 month construction loan at 5.08% at a local bank in Springfield, Illinois and have contributed equity in the amount of \$2,597,500. Audited financial statements have been provided by the applicants and it appears the applicants are financially viable.

CONCLUSIONS:

- The applicants addressed a total of 20 criteria and have failed to meet the following:

State Board Standards Not Met	
Criteria	Reasons for Non-Compliance
Criterion 1125.570 - Service Accessibility	It does not appear that the facility will improve access as there are existing facilities in the planning area not at target occupancy.
Criterion 1125.580- Unnecessary Duplication of Service	It appears that the proposed facility could create a duplication of service because there are existing providers not at target occupancy.

STATE AGENCY REPORT
PROJECT #12-083

APPLICATION SUMMARY	
Applicants(s)	OJCC, LLC, OJCC Realty, LLC, MS Springfield, L.P., MPG Healthcare, L.P.
Facility Name	Springfield Nursing and Rehabilitation Center
Location	Springfield
Application Received	September 26, 2012
Application Deemed Complete	November 7, 2012
Review Period Ended	December 10, 2012
Public Hearing Held	No
Can Applicants Request Deferral?	Yes
Review Period Extended by the State Agency?	No
Applicants' Modified the project?	No

I. The Proposed Project

The applicants (OJCC, LLC, OJCC Realty, LLC, MS Springfield, L.P., MPG Healthcare, L.P.) are proposing the establishment of a 75 bed long term care facility in Springfield, Illinois at a cost of \$13,597,500.

II. Summary of Findings

- A. The State Agency finds the proposed project does not appear to be in conformance with the provisions of Part 1110.
- B. The State Agency finds the proposed project does not appear to be in conformance with the provisions of Part 1120.

III. General Information

The applicants are OJCC, LLC, OJCC Realty, LLC, MS Springfield, L.P., and MPG Healthcare, L.P. OJCC, LLC is the operator licensee and OJCC Realty, LLC is the owner of the site. The project is substantive and subject to Parts 1110 and 1120 review. An opportunity for a public hearing was offered on this project; however, no hearing was requested.

The LTC facility is located in HSA3, and in the Sangamon County Long Term Care Planning Area. The November 2012 update to the Inventory of Long-Term Care General Nursing Bed Need ("Inventory") shows a computed need of 165 LTC beds in the Sangamon County Planning Area.

IV. The Proposed Project - Details

The applicants are proposing the establishment of 75 bed long term care facility in Springfield, Illinois in 45,271 GSF of space.

V. Project Costs and Sources of Funds

The proposed project is being funded through a mortgage in the amount of \$11,000,000 and cash in the amount of \$2,597,500. Table One outlines the project's costs and uses of funds. The cost of the land is \$1,198,000 and the estimated start-up costs are \$200,000

TABLE ONE							
Project Costs and Sources of Funds							
Use of Funds	Clinical	Non-Clinical	Total	Clinical	Non-Clinical	Total	Difference
Preplanning Costs	\$4,512	\$1,988	\$6,500	\$4,355	\$2,145	\$6,500	\$0
Site Survey and Soil Investigation	\$6,942	\$3,058	\$10,000	\$6,700	\$3,300	\$10,000	\$0
Site Preparation	\$13,883	\$6,117	\$20,000	\$27,906	\$13,745	\$41,651	(\$21,651)
Off Site Work	\$0	\$0	\$0	\$65,054	\$32,041	\$97,095	(\$97,095)
New Construction Contracts	\$7,219,274	\$3,180,726	\$10,400,000	\$6,968,000	\$3,432,000	\$10,400,000	\$0
Contingencies	\$360,964	\$159,036	\$520,000	\$702,665	\$346,089	\$1,048,754	(\$528,754)
A & E Fees	\$38,179	\$16,821	\$55,000	\$36,850	\$18,150	\$55,000	\$0
Consulting and Other Fees	\$387,342	\$170,658	\$558,000	\$373,860	\$184,140	\$558,000	\$0
Movable or Other Equipment	\$347,811	\$153,242	\$501,053	\$335,706	\$165,347	\$501,053	\$0
Net Interest Expense	\$534,504	\$235,496	\$770,000	\$515,900	\$254,100	\$770,000	\$0
Other Costs to be Capitalized	\$75,975	\$33,473	\$109,448	\$73,330	\$36,118	\$109,448	\$0
TOTALS	\$8,989,386	\$3,960,615	\$12,950,001	\$9,110,326	\$4,487,175	\$13,597,501	(\$647,500)
Source of Funds							
Cash			\$ 1,950,000			\$ 2,597,500	(\$647,500)
Mortgages			\$11,000,000			\$11,000,000	\$0
TOTALS			\$ 12,950,000			\$ 13,597,500	(\$647,500)

VI. Cost/Space Requirements

Table Four displays the project's cost/space requirements for the clinical portion only. The non-clinical portion can be found at page 69 of the application. The definition of non-clinical as defined in the Planning Act [20 ILCS 3960/3] states, "non-clinical service area means an area for the benefit of the patients, visitors, staff or employees of a health care facility and not directly related to the

diagnosis, treatment, or rehabilitation of persons receiving treatment at the health care facility.”

TABLE TWO		
Cost/Space Requirements		
	Clinical Cost	GSF
Nursing	\$6,367,586	21,200
Living/Dining	\$970,456	3231
Kitchen	\$498,894	1661
Physical/Occupational	\$729,269	2428
Laundry	\$179,614	598
Janitor Closet	\$36,644	122
Clean Soil Utility	\$167,299	557
Beauty Barber	\$115,037	383
Clinical Sub Total	\$9,064,800	30,180

VII. Project Purpose and Alternatives – Information Requirements

A. Criterion 1125.320 – Purpose of the Project

The criterion states:

“The applicant shall document that the project will provide health services that improve the health care or well-being of the market area population to be served. The applicant shall define the planning area or market area, or other, per the applicant's definition.

- 1) The applicant shall address the purpose of the project, i.e., identify the issues or problems that the project is proposing to address or solve. Information to be provided shall include, but is not limited to, identification of existing problems or issues that need to be addressed, as applicable and appropriate for the project. Examples of such information include:
 - A) The area's demographics or characteristics (e.g., rapid area growth rate, increased aging population, higher or lower fertility rates) that may affect the need for services in the future;
 - B) The population's morbidity or mortality rates;

- C) The incidence of various diseases in the area;
 - D) The population's financial ability to access health care (e.g., financial hardship, increased number of charity care patients, changes in the area population's insurance or managed care status);
 - E) The physical accessibility to necessary health care (e.g., new highways, other changes in roadways, changes in bus/train routes or changes in housing developments).
- 2) The applicant shall cite the source of the information (e.g., local health department Illinois Project for Local Assessment of Need (IPLAN) documents, Public Health Futures, local mental health plans, or other health assessment studies from governmental or academic and/or other independent sources).
 - 3) The applicant shall detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being. Further, the applicant shall provide goals with quantified and measurable objectives with specific time frames that relate to achieving the stated goals.
 - 4) For projects involving modernization, the applicant shall describe the conditions being upgraded. For facility projects, the applicant shall include statements of age and condition and any regulatory citations. For equipment being replaced, the applicant shall also include repair and maintenance records."

The applicants stated *"the proposed project is seeking approval for an already approved permit in which the identified beds to be provided and those to be served has not wavered. Therefore, this project will improve the accessibility and therefore well-being of the market area population to be served."*

B. Criterion 1125.330 - Alternatives to the Proposed Project

The criterion states:

"The applicant shall document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.

- 1) Alternative options shall be addressed. Examples of alternative options include:
 - A) Proposing a project of greater or lesser scope and cost;
 - B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;
 - C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and
 - D) Other considerations.
- 2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of cost, patient access, quality and financial benefits in both the short term (within one to three years after project completion) and long term. This may vary by project or situation.
- 3) The applicant shall provide empirical evidence, including quantified outcome data; that verifies improved quality of care, as available."

The applicants stated "the alternatives to this project are limited as this project is a refile to a permit that was already approved. Furthermore, the proposed building is under construction. Therefore, the alternatives to this project are to continue to complete the proposed project or to abandon the project."

VIII. General Long Term Care Category of Service

A. Criterion 1110.520(a) - Background of Applicant

The criterion:

"An applicant must demonstrate that it is fit, willing and able, and has the qualifications, background and character, to adequately provide a proper standard of health care service for the community. [20 ILCS 3960/6] In evaluating the qualifications, background and character of the applicant, HFPB shall consider whether adverse action has been taken

against the applicant, or against any health care facility owned or operated by the applicant, directly or indirectly, within three years preceding the filing of the application. A health care facility is considered "owned or operated" by every person or entity that owns, directly or indirectly, an ownership interest. If any person or entity owns any option to acquire stock, the stock shall be considered to be owned by such person or entity (refer to 77 Ill. Adm. Code 1100 and 1130 for definitions of terms such as "adverse action", "ownership interest" and "principal shareholder")."

The applicants state *"the proposed Springfield Nursing and Rehabilitation will be the only facility operated by the Applicant. However, there are thirteen facilities indirectly related to the proposed project"*. See page 85 of the application for permit. The applicants provided licensure and certification information as required. The applicants provided representations that the State Agency can access any and all information to determine whether adverse actions have been taken against the applicants. The applicants provided all the necessary information required to address this criterion.

B. Criterion 1125.530 (a) - Planning Area Need

The applicant shall document that the number of beds to be established or added is necessary to serve the planning area's population, based on the following:

- a) **Bed Need Determination**
 - 1) The number of beds to be established for general LTC is in conformance with the projected bed need specified and reflected in the latest updates to the HFSRB Inventory.
 - 2) The number of beds proposed shall meet or exceed the occupancy standard specified in Section 1125.210(c).

There is a calculated need for 165 long term care beds in the Sangamon County Long Term Care Planning Area.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH BED NEED DETERMINATION- REVIEW CRITERION (77 IAC 1125.530 (a)).

C. Criterion 1125.530 (b) - Service to Planning Area Residents

- 1) Applicants proposing to establish or add beds shall document that the primary purpose of the project will be to provide necessary LTC to the residents of the area in which the proposed project will be physically located (i.e., the planning or geographical service area, as applicable), for each category of service included in the project.
- 2) Applicants proposing to add beds to an existing general LTC service shall provide resident/patient origin information for all admissions for the last 12-month period, verifying that at least 50% of admissions were residents of the area. For all other projects, applicants shall document that at least 50% of the projected resident volume will be from residents of the area.
- 3) Applicants proposing to expand an existing general LTC service shall submit resident/patient origin information by zip code, based upon the resident's/patient's legal residence (other than an LTC facility).

The applicants have provided referral letters that indicated that 780 individuals will be referred to the facility from the planning area.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH SERVICE TO PLANNING AREA RESIDENTS- REVIEW CRITERION (77 IAC 1125.530 (b)).

D. Criterion 1125.570 - Service Accessibility

The number of beds being established or added for each category of service is necessary to improve access for planning area residents.

a) Service Restrictions

The applicant shall document that at least one of the following factors exists in the planning area, as applicable:

- 1) The absence of the proposed service within the planning area;
- 2) Access limitations due to payor status of patients/residents, including, but not limited to, individuals with LTC coverage through Medicare, Medicaid, managed care or charity care;
- 3) Restrictive admission policies of existing providers;

- 4) The area population and existing care system exhibit indicators of medical care problems, such as an average family income level below the State average poverty level, or designation by the Secretary of Health and Human Services as a Health Professional Shortage Area, a Medically Underserved Area, or a Medically Underserved Population;
- 5) For purposes of this Section 1125.570 only, all services within the 45-minute normal travel time meet or exceed the occupancy standard specified in Section 1125.210(c).

There is no absence of service within this planning area. There is no access limitations due to payor status of the residents; nor restrictive admission policies of existing providers. There is no indication that the area population and the existing care system exhibit medical care problems. There are existing facilities not at target occupancy; therefore it does not appear service access will be improved.

TABLE THREE Facilities within 30 minutes and within the Sangamon County Planning Area					
Facility Name	City	Beds	Distance	Time	Utilization
Lewis Mem Christian Village	Springfield	155	3.59	9.2	91.70%
Illinois Presbyterian Home	Springfield	15	3.78	10.35	29.60%
Regency Nursing Care Residence	Springfield	95	4.33	10.35	84.30%
Oak Terrace Care Center	Springfield	78	4.21	10.35	58.80%
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Auburn Nursing & Rehab Center	Auburn	70	14.8	25.3	86.70%

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH SERVICE ACCESSIBILITY- REVIEW CRITERION (77 IAC 1125.570).

E. Criterion 1125.580 - Unnecessary Duplication/Maldistribution

- a) The applicant shall document that the project will not result in an unnecessary duplication. The applicant shall provide the following information:

- 1) A list of all zip code areas that are located, in total or in part, within 30 minutes normal travel time of the project's site;
 - 2) The total population of the identified zip code areas (based upon the most recent population numbers available for the State of Illinois); and
 - 3) The names and locations of all existing or approved LTC facilities located within 30 minutes normal travel time from the project site that provide the categories of bed service that are proposed by the project.
- b) The applicant shall document that the project will not result in maldistribution of services. Maldistribution exists when the identified area (within the planning area) has an excess supply of facilities, beds and services characterized by such factors as, but not limited to:
- 1) A ratio of beds to population that exceeds one and one-half times the State average;
 - 2) Historical utilization (for the latest 12-month period prior to submission of the application) for existing facilities and services that is below the occupancy standard established pursuant to Section 1125.210(c); or
 - 3) Insufficient population to provide the volume or caseload necessary to utilize the services proposed by the project at or above occupancy standards.
- c) The applicant shall document that, within 24 months after project completion, the proposed project:
- 1) Will not lower the utilization of other area providers below the occupancy standards specified in Section 1125.210(c); and
 - 2) Will not lower, to a further extent, the utilization of other area facilities that are currently (during the latest 12-month period) operating below the occupancy standards.

There are existing facilities in the planning area not at target occupancy therefore it appears the establishment of this facility will result in an unnecessary duplication of service.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH UNNECESSARY DUPLICATION OF SERVICE- REVIEW CRITERION (77 IAC 1125.580).

F. Criterion 1125.590 - Staffing Availability

The applicant shall document that relevant clinical and professional staffing needs for the proposed project were considered and that staffing requirements of licensure, certification and applicable accrediting agencies can be met. In addition, the applicant shall document that necessary staffing is available by providing letters of interest from prospective staff members, completed applications for employment, or a narrative explanation of how the proposed staffing will be achieved.

The applicants have documented that the clinical and professional staffing needs for the project will meet the requirements of licensure, certification and accrediting agencies.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH EXPANSION OF BEDS- REVIEW CRITERION (77 IAC 1125.590).

G. Criterion 1125.600 - Bed Capacity

The maximum bed capacity of a general LTC facility is 250 beds, unless the applicant documents that a larger facility would provide personalization of patient/resident care and documents provision of quality care based on the experience of the applicant and compliance with IDPH's licensure standards (77 Ill. Adm. Code: Chapter I, Subchapter c (Long-Term Care Facilities)) over a two-year period.

The applicants are proposing 75 long term care beds. The applicants have met this requirement.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH EXPANSION OF BEDS-REVIEW CRITERION (77 IAC 1125.600).

H. Criterion 1125.610 Community Related Functions

The applicant shall document cooperation with and the receipt of the endorsement of community groups in the town or municipality where the facility is or is proposed to be located, such as, but not limited to, social, economic or governmental organizations or other concerned parties or groups. Documentation shall consist of copies of all letters of support from those organizations.

Letters from community groups from the City of Springfield and surrounding areas supporting the establishment of the facility have been provided.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH EXPANSION OF BEDS-REVIEW CRITERION (77 IAC 1125.610).

I. Criterion 1125.620 - Project Size

The applicant shall document that the amount of physical space proposed for the project is necessary and not excessive. The proposed gross square footage (GSF) cannot exceed the GSF standards of Appendix A, unless the additional GSF can be justified by documenting one of the following:

- a) Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies;**
- b) The existing facility's physical configuration has constraints or impediments and requires an architectural design that results in a size exceeding the standards of Appendix A;**
- c) The project involves the conversion of existing bed space that results in excess square footage.**

The applicant is proposing to establish 75 nursing care beds in 45,271 gross square feet of space. This equates to 603.6 gross square feet per bed. The State's standards for size allow a range of between 435-713 gross square feet per bed.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE SIZE OF PROJECT - REVIEW CRITERION (77 IAC 1125.620)).

J. Criterion 1125.630 - Zoning

The applicant shall document one of the following:

- a) The property to be utilized has been zoned for the type of facility to be developed;
- b) Zoning approval has been received; or
- c) A variance in zoning for the project is to be sought.

The applicants are in compliance with this criterion.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ZONING - REVIEW CRITERION (77 IAC 1125.630)).

K. Criterion 1125.640 - Assurances

- a) The applicant representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that, by the second year of operation after the project completion, the applicant will achieve and maintain the occupancy standards specified in Section 1125.210(c) for each category of service involved in the proposal.

The applicants have provided the necessary assurances as required.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ASSURANCES - REVIEW CRITERION (77 IAC 1125.640)).

IX. 1125.800 - Availability of Funds

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources from the following sources, as applicable:

- a) **Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to:**
 - 1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and
 - 2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
- b) **Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience. Provide a list of confirmed pledges from major donors (over \$100,000);**
- c) **Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;**
- d) **Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including:**
 - 1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated;
 - 2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate;
 - 3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time

indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;

- 4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment;
- e) Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
- f) Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
- g) All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.

The proposed project is being funded through a mortgage in the amount of \$11,000,000 and cash in the amount of \$2,597,500. The project is ongoing funds are available.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE FINANCIAL VIABILITY CRITERION (77 IAC 1125.800).

X. 77 IAC 1125.800 - Financial Feasibility

- 1) The applicant shall provide (for the LTC facility or for the person who controls the LTC facility) either documentation of a U.S. Department of Housing and Urban Development (HUD) insured mortgage commitment, historical financial statements, or evidence of financial resources to fund the project.
- 2) Historical Financial Statements – The applicant shall provide (for the LTC facility or for the person who controls the LTC facility) the most recent three years' financial statements (if available) that include the following:
 - A) Balance sheet;

- B) Income statement;
 - C) Changes in fund balance; and
 - D) Change in financial position.
- 3) **Projected Capital Costs – The applicant must provide the annual projected capital costs (depreciation, amortization and interest expense) for:**
- A) The first full fiscal year after project completion; or
 - B) The first full fiscal year when the project achieves or exceeds the average occupancy rate in the market area (or target occupancy), whichever is later.
- 4) **Projected Operating Costs – The applicant shall provide projected operating costs (excluding depreciation and stated in current dollars based on the full-time equivalents (FTEs) and other resource requirements) for the first full fiscal year after project completion or the first full fiscal year when the project achieves or exceeds the average occupancy rate in the market area (or target occupancy), whichever is later, including:**
- A) Annual operating costs; and
 - B) Annual operating costs change (increase or decrease) attributable to the project.
- 5) **Availability of Funds – The applicant shall document that financial resources will be available and be equal to or exceed the estimated total project cost and any related cost. An applicant that has no documented HUD insured mortgage commitment shall document that the project and related costs will be:**
- A) Funded in total with cash and equivalents, including investment securities, unrestricted funds, and funded depreciation as currently defined by the Medicare statute (42 USC 1395 et seq.); or
 - B) Funded in total or in part by borrowing because:

- i) a portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order that the current ratio does not fall below 2.0 times; or
 - ii) Borrowing is less costly than the liquidation of existing investments.
- 6) **Operating Start-up Costs** – The applicant shall document that financial resources will be available and be equal to or exceed any start-up expenses and any initial operating deficit.
- 7) **Financial Viability** – The applicant shall demonstrate the financial feasibility of the project based upon the projection of reasonable Medicare, Medicaid and private pay charges, expenses of operation, and staffing patterns relative to other facilities in the market area in which the proposed project will be located.
- 8) **Previous Certificate of Need Projects** –The applicant shall describe its previous record of implementing certificate of need-approved LTC projects.
- 9) **Financial and Economic Review Standard Ratios for New Facilities** –The proposed project shall comply with the ratio standards cited in Appendix B. Applicants not in compliance with any of the viability ratios shall document the reasons for non-compliance.

The proposed project is being funded through a mortgage in the amount of \$11,000,000 and cash in the amount of \$2,597,500. The project is ongoing funds are available.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE FINANCIAL VIABILITY CRITERION (77 IAC 1125.800).

XI. Review Criteria - Economic Feasibility

A. Criterion 1125.800 - Reasonableness of Financing Arrangements

The criterion states:

"This criterion is not applicable if the applicant has documented a bond rating of "A" or better pursuant to Section 1120.210. An applicant that has not documented a bond rating of "A" or better must document that the project and related costs will be:

- 1) funded in total with cash and equivalents including investment securities, unrestricted funds, and funded depreciation as currently defined by the Medicare regulations (42 USC 1395); or**
- 2) funded in total or in part by borrowing because:**
 - A) a portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order that the current ratio does not fall below 2.0 times;**
 - B) or borrowing is less costly than the liquidation of existing investments and the existing investments being retained may be converted to cash or used to retire debt within a 60 day period. The applicant must submit a notarized statement signed by two authorized representatives of the applicant entity (in the case of a corporation, one must be a member of the board of directors) that attests to compliance with this requirement.**
 - C) The project is classified as a Class B project. The co-applicants do not have a bond rating of "A". No capital costs, except fair market value of leased space and used equipment, are being incurred by the co-applicants."**

The applicants have obtained financing as the project is ongoing. The applicants have met the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REASONABLENESS OF FINANCING CRITERION (77 IAC 1125.800).

B. Criterion 1125.800(b) - Conditions of Debt Financing

This criterion states:

"The applicant must certify that the selected form of debt financing the project will be at the lowest net cost available or if a more costly form of financing is selected, that form is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs, and other factors. In addition, if all or part of the project involves the leasing of equipment or facilities, the applicant must certify that the expenses incurred with leasing a facility and/or equipment are less costly than constructing a

new facility or purchasing new equipment. Certification of compliance with the requirements of this criterion must be in the form of a notarized statement signed by two authorized representative (in the case of a corporation, one must be a member of the board of directors) of the applicant entity."

The applicants have obtained financing as the project is ongoing. The applicants have met the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS BE IN CONFORMANCE WITH THE TERMS OF DEBT FINANCING CRITERION (77 IAC 1125.800).

C. Criterion 1125.800(c) - Reasonableness of Project Cost

The criteria states:

"1) Construction and Modernization Costs

Construction and modernization costs per square foot for non-hospital based ambulatory surgical treatment centers and for facilities for the developmentally disabled, and for chronic renal dialysis treatment centers projects shall not exceed the standards detailed in Appendix A of this Part unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities. For all other projects, construction and modernization costs per square foot shall not exceed the adjusted (for inflation, location, economies of scale and mix of service) third quartile as provided for in the Means Building Construction Cost Data publication unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities.

2) Contingencies

Contingencies (stated as a percentage of construction costs for the stage of architectural development) shall not exceed the standards detailed in Appendix A of this Part unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities. Contingencies shall be for construction or modernization only and shall be included in the cost per square foot calculation.

BOARD NOTE: If, subsequent to permit issuance, contingencies are proposed to be used for other line item costs, an alteration to the permit (as detailed in 77 Ill. Adm. Code 1130.750) must be approved by the State Board prior to such use.

3) Architectural Fees

Architectural fees shall not exceed the fee schedule standards detailed in Appendix A of this Part unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities.

4) Major Medical and Movable Equipment

A) For each piece of major medical equipment, the applicants must certify that the lowest net cost available has been selected, or if not selected, that the choice of higher cost equipment is justified due to such factors as, but not limited to, maintenance agreements, options to purchase, or greater diagnostic or therapeutic capabilities.

B) Total movable equipment costs shall not exceed the standards for equipment as detailed in Appendix A of this Part unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities.

5) Other Project and Related Costs

The applicants must document that any preplanning, acquisition, site survey and preparation costs, net interest expense and other estimated costs do not exceed industry norms based upon a comparison with similar projects that have been reviewed."

Preplanning Costs - These costs total \$4,355 or less than 1% of construction, modernization, contingency, and equipment costs. This appears reasonable compared to the State standard of 1.8%.

Site Survey and Soil Investigation, Site Preparation - These costs total \$34,606 or less than 1% of construction, and contingency costs. This appears reasonable when compared to the State Board Standard of 5.0%.

Offsite Work - These costs total \$65,054. The State Board does not have a standard for these costs.

New Construction and Contingencies – These cost total \$7,670,665 or \$169.44 per GSF. This appears reasonable when compared to the adjusted State Board standard of \$190.55 per GSF.

Contingencies – This cost is \$702,665 or 10% of new construction costs. This appears reasonable when compared to the State Board standards of 10% for new construction.

Architectural and Engineering Fees – This cost is \$36,850 or less than 1% of new construction modernization and contingency costs. This appears reasonable when compared to the State Board standard of 5.94% - 8.92%.

Consulting and Other Fees – These costs total \$373,860. The State Board does not have a standard for these costs.

Movable Equipment – These costs total \$335,706 which totals \$4,476 per bed. This is reasonable compared to the State Board Standard of \$6,491 per bed.

Net Interest Expense During Construction - These costs total \$519,900. The State Board does not have a standard for these costs.

Other Costs to be Capitalized – These costs total \$73,330. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN COMPLIANCE WITH THE REASONABLENESS OF PROJECT COSTS CRITERION (77 IAC 1125.800).

D. Criterion 1125.800(d) - Projected Operating Costs

The criterion states:

“The applicants must provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year after project completion or the first full fiscal year when the project achieves or exceeds target utilization pursuant to 77 Ill. Adm. Code 1100, whichever is later. Direct cost means the fully allocated costs of salaries, benefits, and supplies for the service.”

The applicants project \$133.44 of annual operating costs per patient day for FY 2012. The State Board does not have a standard for this cost.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH THE PROJECTED OPERATING COSTS CRITERION (77 IAC 1125.800).

E. Criterion 1125.800(e) - Total Effect of the Project on Capital Costs

The criterion states:

“The applicants must provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full year after project completion or the first full fiscal year when the project achieves or exceeds target utilization pursuant to 77 Ill. Adm. Code 1100, whichever is later.”

The applicants project \$54.33 per patient day in annual capital costs for FY 2012. The State Board does not have a standard for this cost.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH THE TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS CRITERION (77 IAC 1125.800).

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